

Service Date: September 20, 1978

PROPOSED ORDER NO. 4453

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * *

IN THE MATTER of the Application)	
of the COMBINED HUNGRY HORSE WATER)	DOCKET NO. 6562
CO., INC. for authority to establish)	
increase rates for water service.)	ORDER NO. 4453
_____)	

APPEARANCES

FOR THE APPLICANT:

MARSHALL MURRAY, Attorney at Law, 240 First Avenue West, Kalispell, Montana,
appearing on behalf of the Applicant.

FOR THE PROTESTANT:

JOHN C. DOUBEK, Attorney at Law, 34 West Sixth Avenue, Helena, Montana,
appearing on behalf of the Montana Consumer Counsel.

FOR THE COMMISSION:

ROBERT F. W. SMITH, Staff Attorney

BEFORE:

GEORGE TURMAN, Commissioner and Hearing Examiner

FINDINGS OF FACT

1. On December 27, 1977, the Combined Hungry Horse Water Company filed with this Commission its application for authority to increase rates for water service supplied residents

of Hungry Horse, Montana. The proposed rate increases would generate \$26,337 of added yearly revenue. In addition, the utility sought approval of rates for customers not previously served.

2. Following legal notice, hearings were held in this Docket on April 20 and 21, 1978 in Hungry Horse. Mr. Hacker, president of the utility, and a number public witnesses testified at the hearing. Rather than being closed in April, the hearing was continued to allow time for Applicant to respond to data requests from the Consumer Counsel and the Commission staff. By July 1978 the utility had responded to the requests.

NEED FOR INCREASED REVENUES

3. The water rates currently in effect for Combined Hungry Horse Water were approved in 1948. According to the utility's application, these rates are no longer adequate to cover operation and maintenance expenses, the costs of Farmers Home Administration (FHA) loans and outlays for needed system improvements.

4. The testimony of those protesting the proposed increases suggested that the utility had not used past revenues to benefit ratepayers who supplied the funds. In particular, public witnesses complained that the expenditure of monies from the FHA loans had done little to upgrade the in-town water system; residents alleged that they were, nonetheless, being asked to shoulder the financial burden resulting from the loans.

5. Statements of financial condition submitted with the utility's application confirm its present inability to meet all expenses with revenues generated under current rate schedules. According to Exhibit 13, Combined Hungry Horse lost \$9,512.62 during the year ended May 31, 1977 on a cash basis. When accrual accounting was used to include depreciation expenses, the loss rose to \$16,186.66 for the same time period. (Exhibit 17) The largest expense item was interest, the majority of which was paid to the Farmers Home Administration.

6. With the exception of fiscal year 1978, the utility has experienced a net deficit every year since its founding:

		<u>Net Income (Deficit)</u>
Year Ending	5-31-77	\$(16,186.66)
	5-31-76	(10,724.55)
	5-31-75	(6,531.36)
	5-31-74	(7,742.67)
	5-31-73	583.81
	5-31-72	(2,126.00)
	5-31-71	(3,141.00)

Increasing operating expenses and interest payments have resulted in the expanding deficit.

7. Net operating deficits occurred in all but one of the years with net deficits:

		<u>Net Operating Income (Deficit)</u>
Year Ending	5-31-77	\$(7,328.97)
	5-31-76	(6,829.98)
	5-31-75	(3,614.69)
	5-31-74	(6,923.92)
	5-31-73	(2,147.52)
	5-31-72	(777.00)
	5-31-71	204.00

8. The Combined Hungry Horse Water Company should be granted rate relief to cover the operating deficit which would otherwise be anticipated to occur. If fiscal year 1977 were not a typical, an operating deficit of \$7,328.97 can be expected.

9. In addition, the water company requires additional revenue to meet interest payments on its long-term debt. However, ratepayers should not be forced to bear the expense of system improvements from which they do not benefit.

10. The utility has received long-term loans from two sources: Hacker, its president, and the Farmers Home Administration. The personal loan from Hacker was used largely to cover operating expenses (see Exhibit 20) and its costs should be shared by all water users. In contrast, all proceeds from the FHA loan were not spent for systemwide improvements. Hacker testified that \$30,000 of the loan had been used for extension of lines to serve the Bible Camp. Of the remaining \$80,000, part was used to upgrade the system in town and the remainder to add a loop

along the river. This loop allowed the utility to serve more customers but did not improve service to in-town water users.

11. The river loop was essentially a real estate improvement which enriched certain landowners who coincidentally were majority shareholders of the water utility. The benefits of these improvements inevitably were and are a consideration in valuation of land on the river loop. In effect, such benefits are capitalized in real estate values and typically recovered upon sale. The costs of water service to the community, therefore, must be reduced by the amount of utility expense associated with extension of service to the vicinity of once unimproved, subdivided properties formerly owned by water company stockholders. To accomplish this, representatives of the utility, the Consumer Counsel and the Commission shall meet to determine the proportion of the \$80,000 FHA loan used to construct the river loop. Interest on this loan shall be multiplied by the resulting proportion to determine the amount of interest expense not the responsibility of community residents.

12. Continued operation of the Combined Hungry Horse Water Company requires a revenue increase of \$7,328.97 for the projected operating deficit, \$900.25 for interest on the 82 percent loan from Hacker and additional monies for interest on that portion of the 5 percent, \$110,000 FHA loan benefitting community residents and the Bible Camp. Rate relief of at least this magnitude is warranted for the Combined Hungry Horse Water Company, Inc.

QUALITY OF SERVICE

13. In the course of hearings at Hungry Horse, many citizens voiced dissatisfaction with the quality of service provided by the utility. Complaints concerned the quality of water supplied, low pressure and the recurring unavailability of water for periods of time.

14. The Commission shares the residents' concern with quality of service. Consequently, a revenue increase beyond that determined a necessary minimum in Finding 12 is found appropriate to finance system improvements.

15. Through his letter of July 13, 1978, Marshall Murray, attorney for the Applicant, supplied a late-filed exhibit listing proposed capital improvements with the cost of each.

Estimated cost for the nine projects was approximately \$70,000. Were the improvements made over a five-year period, the annual expenditure would be \$14,000. A revenue increase of \$14,000 above that approved in Finding 12 is found reasonable to permit system improvements.

16. During each year, the Combined Hungry Horse Water Company shall deposit at least \$14,000 in a fund to be used for improvements to the system. The utility shall report semi-annually to this Commission:

- (a). annual additions to the improvements fund
- (b). the fund's cumulative balance
- (c). a list of projects to be undertaken with projected expenses
- (d). improvements in progress
- (e). completed projects with expenses actually incurred

RATE STRUCTURE

17. The Commission believes that cost of service should be an important consideration in determining reasonable rates. Although the record in this Docket contains no evidence which would permit the setting of completely cost-based rates, recognition should be given to the differential costs of service. Specifically, \$30,000 was spent connecting the Bible Camp to the system; interest expenses on this amount total \$1,500 annually. One-fourth of this cost should be added to the proposed rate for the Camp since the Camp receives service only during the four summer months. The resulting Bible Camp rate is \$475 monthly for annual revenues of \$1,900.

18. The total revenue increase authorized herein less \$1,800 to be recovered from the Bible Camp shall be derived by increasing all current rates (with the exception of that for the Camp) a constant percentage over their present levels. The percentage is determined as the ratio of the increase allowed by this Order from these customers to \$26,237, that proposed.

19. In its application, the water company requested approval of rates for businesses who had not previously been served by the utility. These proposed rates are approved in their entirety.

20. The rate-setting procedure, utilized by this Commission is a reasonable means of determining rates which are reflective of costs; it insures that in-town customers will not be forced to pay for system additions from which they do not benefit.

CONCLUSIONS OF LAW

1. The Combined Hungry Horse Water Co., Inc. is a public utility supplying water to customers in the State of Montana.

2. This Commission has jurisdiction over the rates and charges for, and the conditions under which utility service is rendered in Montana and may order any reports it finds necessary for the proper performance of its duties.

3. An adjusted rate increase reflecting the disparate benefits accrued from Hungry Horse water system extension to the Bible Camp is an appropriate means of assuring that customers will not be forced to pay for system additions they do not use.

4. The Commission's order that a specified percentage of increased revenues be earmarked for system improvements is necessary to insure that the quality of service delivered to the customers is ameliorated.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Combined Hungry Horse Water Co., Inc. shall file rate schedules designed to yield a revenue increase of \$14,000 to permit system improvements plus sufficient funds to finance operating expenses and the portion of interest expenses prescribed in this Order.

2. A minimum of \$14,000 shall be deposited annually by The Combined Hungry Horse Water Co. in a fund to be used for system improvements.

3. IT IS FURTHER ORDERED that The Combined Hungry Horse Water Co. shall report semi-annually to this Commission;

- (a). annual additions to the improvements fund
- (b). the fund's cumulative balance

- (c). a list of projects to be undertaken with projected expenses
- (d). improvements in progress
- (e). completed project with expenses actually incurred

4. All current rates with the exception of that of the Bible Camp shall be increased a constant percentage over present levels to achieve the total revenue increase authorized here less \$1,800.

5. The Bible Camp's rate shall reflect differential costs of service. Interest expenses due to connection costs amount to \$1,500 annually. One fourth of this expense shall be added to the proposed rate for the Camp since the Camp only receives service four months a year. The Bible Camp rate is thus \$475 monthly for annual revenues of \$1,900.

6. Applicant's proposed rates for those businesses previously not served by the utility are approved in their entirety.

7. All motions and objections not ruled upon at the hear are denied.

IT IS FURTHER ORDERED, pursuant to ARM 1-1.6(2)-P6190, that this is a proposed order. Any party shall have the opportunity to file exceptions to this initial decision, present briefs and make oral arguments before the entire Commission, provided such exceptions are presented to the Commission within twenty (20) days from the service date of this proposed order and briefs opposing exceptions filed ten (10) days thereafter.

DONE at Helena, Montana this 20th day of September, 1978.

George Turman, Commissioner and
Hearing Examiner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)